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On behalf of the Queensland University of Technology (QUT), we extended a warm welcome to all delegates to the Australian and New Zealand Marketing Academy (ANZMAC) Conference 2006. This year, we welcomed delegates from 25 nations meeting

# **Linking Competitive Positions, Success Requirements and Capabilities**

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## **Abstract**

To choose a competitive position, firms must have a clear understanding of 1) the specific market deliverables required to meet consumer expectations of the position, and 2) the corresponding assets and capabilities required. Only then can the firm assess the fit of the position relative to their ability to achieve it in the market. This paper proposes a tool to aid organisations' abilities to make these strategic assessments. It incorporates choice modelling to identify specific market drivers to achieve a position and systems dynamics to identify specific assets necessary to deliver the drivers. It also links market needs and required assets to identify interactions, and simulate the effects of investments in specific assets on achieving market positions. It enables firms to systematically assess the overall fit of positions to the firm's capabilities, and determine their likelihood and costs of success.

## **Introduction and Purpose**

It is widely acknowledged that choosing a competitive position is a critical step in developing marketing strategy. Competitive positions combine a firm's choice of target market with the differentiated value proposition it intends to deliver to that target. It is also accepted that choosing a position that provides fit between the market needs and the firm's unique competencies increases the likelihood of strong competitive market performance. According to Hooley, Broderick and Moller (1998) "giving equal weight to market demands and capability profiles when selecting targets and implementing positioning strategies, firms can ensure an enduring match between their offerings and their markets."

However, while researchers have begun to link required capabilities profiles to the market expectations associated with various market positions (Hooley, Broderick and Moller 1998, Hooley and Greenley 2005, and Juga 1999), there is extant literature regarding how to bring this process to life in real market settings. Specifically, there are no clear process tools that systematically identify the precise needs and associated market expectations of positions and link them to the precise deliverables and required firm capabilities in a comprehensive manner. This paper proposes a process tool that will aid organisations in identifying those links and thus more systematically assess competitive positions.

## **Background**

Strategic marketing literature throughout the 1990's has debated the relevance of two 'opposing' perspectives on effective strategy development. The first is the market-orientation perspective which suggests that superior market performance is realized through the quest for monopoly rents (returns to market power). Thus, performance results from maintaining a keen view on market opportunities, industry structure, market intelligence and delivery of unique quality offers (Grant 1991). Conversely, the resource-based view (RBV) suggests that strong market performance is primarily realized through the quest for Ricardian rents (returns to scarce resources) and a focus on the utilization of historically developed resources and assets (Collis and Montgomery 1995, Grant 1995, Wernerfelt 1995).

Emerging literature has suggested that too strong a focus on either perspective may be suboptimal for effective marketing strategy. Marketing strategy that's too outwardly focused on changing opportunities in the market, without consideration of whether the firm has what it takes to win the opportunity, results in organizational responsiveness, but not effectiveness or profitability. Conversely, if marketing strategy is too inwardly focused on development and utilization of resources and capabilities, the organization may achieve outstanding performance but offer something from which the market has shifted away or does not want (Hooley, Saunders and Piercy 2004).

Emerging research suggests a middle-ground or integration of the two philosophies in that a match between resource-based and positional advantages is key to achieving optimal market performance (Henderson and Mitchell 1997, Hooley and Greenley 2005, Hunt and Morgan 1996, Juga 1999). Competitive market positioning takes both the internal and external views equally into consideration. A competitive market position defines a target audience and by definition their idiosyncratic wants, needs and motivations. However, it also defines the competitive advantage that will be utilised in pursuing the target market. Marketing strategy dictates that organisations assess various competitive market positions based on their overall attractiveness from both external (size, stability and competitive forces) and internal (resources required to fulfil the deliverables/target needs) perspectives. Thus, this view accommodates both philosophies. It recognises the need to leverage capabilities in the market while also recognising that a position must be based on strong and unique corporate resources to be successful and sustainable versus competition (Hamel and Prahalad 1994, Collis and Montgomery 1995).

While this emerging perspective reconciles conflicting thinking in the marketing strategy literature, many questions remain regarding how to link the external and internal orientations in practice. Specifically, there is little research and or tool development that has addressed how to specifically tie potential competitive market positions to asset, resource and capability requirements to assess the fit or pursue the positions. While there have been attempts to tie competitive market positions with firm capability requirements (Hooley and Greenley 2005, Juga 1999), they have considered generic positions and capabilities yielding them inaction able in real markets. For example, Hooley and Greenley (2005) recognise that a competitive position is a combination of a target market and the differential advantage the firm seeks to secure that market. Thus, positioning decisions require a clear view of both the customer requirements, and resources needed to offer the unique value to deliver them. They provide empirical support for a framework that identifies five market positions and the organisational resources required to achieve them. They also assess the likely sustainability of the positions based on the inherent sustainability of the underlying resources being utilized.

However, while enlightening from both theoretical and future research perspectives, the Hooley and Greenley framework necessarily examines generic positions and high level, abstract asset and capability requirements. The study identifies five positioning clusters: “Stuck in the Middle,” Service Leaders, Innovators, Price Leaders, and Traditionalists (relatively high price for moderate technical and service quality). Juga (1999) examines capability requirements of equally generic positions of cost leadership, differentiation and focus. Both studies also tie the generic positions to non-specific, abstract resources and capabilities necessary to achieve the positions (such as “cost advantages in operations,” “products of consistently high standards,” “positive company reputation,” and “customer sensing and bonding capabilities” in the Hooley and Greenley study).

In diverse, concrete target markets, business structures and industries, such generic taxonomies are directionally useful but not specifically actionable. For example, in a given industry there may be several avenues to being the “Service Leader.” In retail grocery products, one type of service leader may involve providing the highest level of convenience while another may be providing the highest quality products and range, while yet another might be providing the most knowledgeable and helpful service personnel. Each type of service leadership may be the critical differentiating factor to a different target segment in the market. Thus, while assessing generic positions can provide theoretical insights and guidance, they must be further specified in terms of far more concrete target market needs to be realistically assessed and actioned.

Furthermore, how those positions are actually demonstrated in the market, or what the market requires for their specific needs to be fulfilled, will vary across industries and markets. For example, in a retail setting, ‘convenience’ may be a function of deliverables such as good locations, short queues, hours of operation and user friendly store formats. However, in professional services, convenience may be a function of having a broad range of services to be a 1-stop shop, having global alliances and having a billing system integrated with the customers’. Thus, not only must the generic positions be further specified, but the concrete deliverables expected by customers to fulfil market needs must also be specified on a target market/industry specific basis for the competitive market position to be assessed and actioned.

Finally, resources needed to offer the unique value in the delivery of market requirements will also vary across industries and competitive structures. For example, having “cost advantages in operations” is achieved in different ways in say the airline industry as opposed to retail groceries. Southwest Air achieves cost advantages by using a single plane model, limiting ground time to fifteen minutes and flying to secondary airports, using reusable plastic boarding passes with no seat selection or food service, etc. Alternatively, Food Lion, a Southeastern U. S. food retailer achieved cost advantages by limiting SKU's, cookie cutter stores, limited non-grocery service provision, using banana crates as shelves, etc. A similar argument can be made for achieving other generic capabilities such as customer bonding which would entail very different capabilities in a FMCG industry as opposed to B2B.

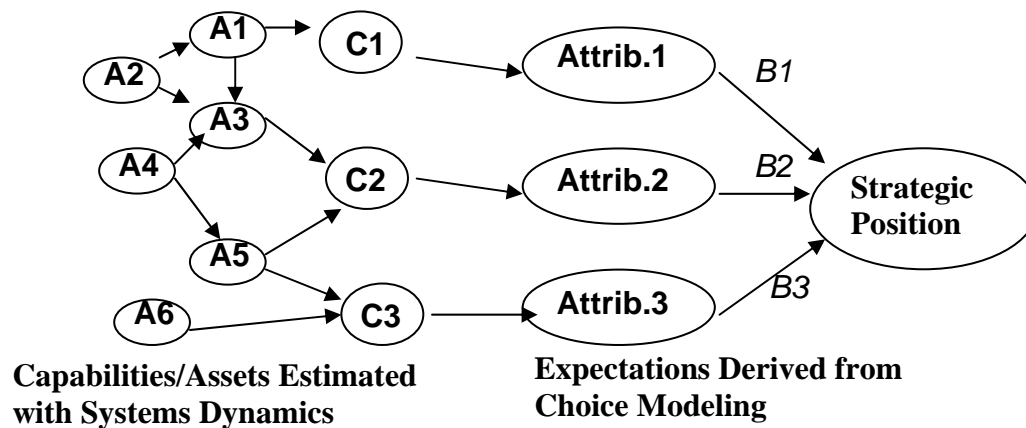
In summary, a focus on generic competitive market positions necessarily results in identification of generic needs and required resources which are inaction able. Such an analysis cannot provide the specific information regarding key deliverables and required assets and competencies necessary to assess the fit of a position to firm resources, or how to pursue the position in the market. Thus, it's proposed that to accurately assess competitive positions, they must be fully specified rather than generically identified. Further, both concrete deliverables expected by customers, and concrete resources and capabilities required to achieve the deliverables must be determined on target market/industry specific bases.

### **Tool for Linking Competitive Positions, Success Requirements and Capabilities**

Hooley and Greenley (2005) provide a good starting point to aid firms in the assessment of fit between organisational capabilities and competitive market positions, but it is not actionable in a diverse, real world setting. This paper proposes a process tool aimed at helping organisations fully specify, analyse and understand competitive positions. The model considers the interrelationships and linkages among consumer expectations and firm assets, resources and capabilities across alternative positions. On the one side, the tool incorporates choice modelling to identify target segment's critical requirements and trade-offs between

attributes and qualities for a given position. On the other side, it uses systems dynamics to link the requirements to the ultimate assets and resources necessary to deliver them (Fig. 1).

**Figure 1: Tool for Linking Competitive Positions, Success Requirements and Capabilities**



### Choice Modelling

Choice models are sophisticated research techniques that involve constructing models that replicate how consumers actually behave. Aggregate choice frequencies are modelled (usually multinomial logit) to infer the relative impact of each attribute level on choice. In that way, choice modelling can be used to identify the drivers of choice and the relative impact of each of those drivers. It can be used to determine what specifically affects consumer choices (features, attributes, qualities etc) and what trade-offs varying consumer segments might be willing to make to fulfil their individual wants and needs. Thus the method can be used on a segment by segment basis to identify specifically what consumers would require from an organisation to fulfil the 'expectations' of a given market position. Additionally, it can model the relative impact of each of those identified requirements in terms of fulfilment of the position promise and ultimately preference/choice in the segment.

### Systems Dynamics

Business processes can be described as being dynamically complex in that not only do a number of factors affect process outcomes, but those factors are often related to one another and do not operate independently. In dynamically complex systems, understanding as completely as possible the overall network of interrelationships among process variables is critical. It reduces the likelihood of surprises from feedback loops wherein an action, after working its way through the system, results in the opposite effect from the one intended. It also improves the ability to understand variables whose effects, because they are further removed from the focal variable, are often masked or overlooked as antecedents. For example, Levitt and Dubner (2005) in their provocative book "Freakonomics," suggest the reduction in crime in the U.S. in the 1990's was the result not only of the popular adjacent variables such as a strong economy and innovative policing strategies but also of the (further removed) Roe v Wade abortion case decision decades prior. Traditional techniques for assessing the assets and resources required to deliver market value in complex market systems often fail to detect the nonlinearity of loop effects or even the existence of remote variables.

Systems dynamics uses a set of tools designed to aid in the detection, understanding and modelling of dynamically complex systems/structures and the behaviour, including non-linearity of effects, caused by this structure. It is based in the theory of nonlinear dynamics and feedback control developed in mathematics, physics and engineering (Sterman 2001). The tools include systems thinking techniques that identify systems variables, networks and causal loops providing a qualitative understanding of the overall system. The tools also include simulation models to quantify the system, assess complex interactions and aid in strategic decision making. The technique has been used in many companies/industries such as AT&T, BBC, British Telecom, Exxon, Ford, IBM, Royal Dutch Shell, and SmithKline Beecham to improve the quality of decision making (Dutta 2001).

In the present context, systems dynamics can be used to qualitatively identify the resources, assets and capabilities necessary to deliver specific requirements to the market. The development of driver maps can help guide understanding of resource requirements from generic (eg. cost advantages) to the specific boundary level assets and capabilities that drive those generic requirements in a given industry context (eg. 15 minute turnaround time for airplanes, gate contracts at secondary airports). Organisations can also identify the interrelationships among the variables. Some of the interrelationships may be positive (eg. synergy may result such as using secondary airports further reducing turnaround times). Others may be negative (eg. a single plane model may impede the use of some secondary airports). Finally, simulating the asset interrelationships can provide estimates of how and where to optimally invest in assets to best achieve the deliverables.

### **Process Tool/Conclusion**

Combining the results of the outward focus of choice modelling with the results of the inward focus of systems dynamics provides a structural view of the firm capabilities relative to the delivery of specific market positions (Fig. 1). Choice modelling identifies specific market requirements and their relative importance to achieving the position. Systems dynamics provides insight into the internal network of specific assets and resources (along with their process interrelationships) required to deliver those requirements. When linked, firms can simulate which of the assets and resources will have the biggest impact on delivering the market position (by looking at the importance of the deliverable it contributes to based on choice modelling parameters). It can also simulate how investment in various resources and assets will ultimately affect specific market positions and determine both the costs and the likelihood of success for the firm to achieve various positions. Finally, based on those assessments, an organisation can have a systematic method to assess the relative attractiveness from a fit and delivery perspective of the various competitive market positions.

While the need to link target market/position choices with firm capabilities has been acknowledged, an actionable tool identifying specific market and firm requirements and their linkages/interrelationships has not been available. This paper proposes a tool that fills that gap and can be used by organisations to more systematically assess the fit of competitive positions with their own assets and capabilities to aid in marketing strategy decisions.

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